UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

UNITED STATES OF AMERICA,

CRIMINAL NO. 12-20030

vs.

HON. NANCY G. EDMUNDS

D-2 ROY DIXON,

Defendant.
___________________________________/

SENTENCING MEMORANDUM OF THE UNITED STATES AS TO DEFENDANT ROY DIXON

I. INTRODUCTION

Roy Dixon committed serious crimes that resulted in significant harm to the Detroit and Pontiac pension systems amounting to over $23 million in losses. Dixon paid bribes amounting to over $200,000 to trustees of Detroit's two retirement systems and to trustees of the Pontiac retirement system. In addition, Dixon misappropriated over $3 million from the three pension systems for his own personal enrichment. Dixon's sentence should reflect the serious crimes he committed, while at the same time recognizing the substantial assistance that he provided by way of cooperation with the government's prosecution of his co-conspirators.

II. ARGUMENT

A. The Nature and Circumstances of Dixon's Crimes (18 U.S.C. § 3553(a)(1))

1. Dixon's Involvement With the Pension Funds

Dixon was an investment sponsor and broker who brought a number of investment proposals before Detroit's Police and Fire Retirement System and Detroit's General Retirement System. Dixon brought the following investment proposals before Detroit's two pension funds: (1) the Inland REIT II (approved in May 2007 for $30 million from Detroit's two pension funds)—a real estate investment trust; (2) the Onyx Capital Advisory Fund (approved in June 2007 for $20 million from Detroit's pension funds); and (3) PR Investments—a proposal to purchase real estate in the Turks and Caicos Islands (this investment was approved in February 2008, but no pension money was ever actually invested). In addition, Dixon sought and secured a $5 million investment from the City of Pontiac General Employees Retirement System for the Onyx fund. Ultimately, the Pontiac fund invested only $3.894 million of that money in Onyx.

The Onyx fund was a private equity fund operated by Onyx Capital Advisors, a company owned and operated by Dixon. The Onyx fund was supposed to be using pension money to invest in mid-sized manufacturing companies in the Midwest. Ultimately, in April 2010, the Securities and Exchange Commission ("SEC") shut Onyx down because of the discovery of fraud and embezzlement by Dixon, and by Michael Farr, the owner of Second Chance Motors, which received about 80% of the pension fund investment monies through Onyx. Both of Detroit's pension funds lost their entire investment, for a total loss of $20 million. In addition, the Pontiac pension fund lost the $3.894 million that was invested in Onyx.

2. **The SEC Lawsuit Against Dixon**

In April 2010, the SEC filed a complaint against Dixon, Farr, and Onyx for embezzlement and other securities laws violations. The case was litigated before Judge Denise Page Hood in *SEC v. Onyx Capital Advisors, Roy Dixon, and Michael Farr*, Case No. 10-CV-11633. In the civil case brought by the SEC, Judge Hood entered summary judgment in favor of the SEC and against Dixon, finding that Dixon had embezzled $3.1 million from the three public pension funds (the two Detroit funds and the Pontiac fund). Case No. 10-CV-11633, Docket No. 117, Order Granting Summary Judgment; Docket No. 148, Judgment against Dixon and Farr. Judge Hood also found that Farr had embezzled $2.326 million. At the same time that the SEC was litigating the case against Dixon, the FBI was conducting a criminal investigation against Dixon for bribery of Detroit and

Pontiac pension trustees, as well as wire fraud for his embezzlement of pension fund money.

3. Dixon's Bribery of Public Pension Officials

During the course of the investigation, the government determined that Dixon had given money and other things of value to at least five different Detroit pension trustees in order to influence their votes, including co-defendant Jeffrey Beasley, co-defendant Paul Stewart, trustee James Moore, trustee Ronald Gracia, trustee Alberta Tinsley-Talabi, and her Chief of Staff, co-defendant George Stanton. In addition, Dixon and Farr gave things of value to at least two Pontiac pension trustees.

The Pontiac pension board approved the Onyx investment in February 2007, with all three pension funds signing a partnership agreement with Onyx in June 2007. Subsequently, between 2007 and 2009, the three boards had to vote on and approve capital calls made by Onyx in order to draw money from the pension systems for the investments selected by Dixon and Onyx. Eventually, the three pension funds invested $23.8 million with Onyx. During the course of the conspiracy, Dixon and his company Onyx received $1.291 million from the three pension funds in management fees pursuant to the terms of the Onyx partnership agreement. Onyx and Dixon invested millions of Detroit and Pontiac pension money in Second Chance Motors, an Atlanta-based used-car dealer specializing in customers with bad credit. Michael Farr, the owner of Second Chance Motors, provided information to the government about various benefits that were given to pension trustees. Farr testified that in August 2007, Dixon paid for the vacation of Jeffrey Beasley and his family in the Turks & Caicos Islands. In addition, according to Farr, he witnessed Dixon giving large amounts of cash to Beasley so that Beasley could go gambling on the islands. Furthermore, Dixon repeatedly complained to Farr that Beasley was "wearing him out" with all of Beasley's demands for money on the trip. Dixon said he needed a vacation from the vacation because of Beasley. In general, before and after the trip, Dixon and Farr discussed the fact that they needed to keep Beasley and other trustees happy so that they would continue to get money for the Onyx investments from the Detroit pension systems. Farr also reported that he supplied used cars to two Pontiac pension trustees, as well as one of the son of a trustee, at the direction of Dixon in order to keep the trustees supporting the Onyx investment with the Pontiac pension fund.

Farr and Civic Fund records establish that Dixon and Farr made substantial donations to the Kilpatrick Civic Fund. These payments include the following: (1) a September 5, 2007 payment of $20,000 by Dixon to the fund; (2) a September 5, 2007 payment of $10,000 by Farr and his wife to the fund; (3) total payments of $10,000 on July 3, 2008 by Dixon to the fund; and (4) a July 3, 2008 payment of $5,000 to the fund by Farr and his wife. Farr testified that Dixon told him that they had to donate to the Civic Fund or their chances for getting money from the pension boards would be hurt.

During two May 2010 meetings with the SEC, the FBI, and AUSAs, Dixon admitted to providing money and other things of value to pension trustees in order to influence their votes. Dixon admitted to paying $12,000 in cash each to Detroit Trustees Ronald Gracia and James Moore in order to secure their support for the Onyx and Inland REIT investments. Dixon also admitted to paying for Beasley's vacation for him and his family in the Turks and Caicos, including $2,000 to Beasley to pay for his plane tickets. Dixon also paid $50,000 to a third party marketer Steve Pankake, after Beasley pressured Dixon to make the payment. Dixon admitted paying $1,000 to the campaign funds of Stewart, Moore, and Gracia. Dixon gave $5,000 or $6,000 in cash to co-defendant Ronald Zajac, the General Counsel of the pension funds, so that Zajac could give cash to pension trustees during pension conferences in Las Vegas. Finally, Dixon stated that Beasley pressured Dixon to give money to the Kilpatrick Civic Fund in exchange for the administration's support of Dixon's investment proposals before the pension funds. Ultimately, Dixon and Farr donated $45,000 to the Civic Fund at the request of Beasley. Finally, Dixon admitted that he directed Michael Farr to give a job paying $60,000 to $80,000 per year to Hosea Moore, the brother of

Trustee James Moore, so that Trustee Moore would continue to support Dixon's investment proposals before the pension fund.

4. Dixon's Embezzlement of Pension Money

The SEC and its auditors determined that Dixon's embezzlement of $3.1 million in pension funds through Onyx took a number of forms. For example, Dixon transferred over $500,000 in pension money from the Onyx fund to one of Michael Farr's companies. Farr then used $513,000 to pay some bills of construction contractors who were working on Dixon's 12,000 square foot home in Atlanta. A significant portion of the money embezzled by Dixon was used to pay the more than $3 million in construction costs of his mansion. Dixon also would use the pension money in the Onyx fund to cover overdrafts in his own personal bank accounts and his company accounts, transferring pension money to his accounts on fifteen different occasions to cover the overdrafts. In total, Dixon transferred some $5.9 million in pension money to his own or his company's accounts. Dixon also received over $250,000 in cash withdrawn from the accounts of Farr's companies. After deducting out for $1.291 in management fees owed to Dixon by the pension funds, as well as $1.8 million in pension money that Dixon returned to the Onyx fund, Dixon retained $3.1 million in embezzled funds beyond the authorized management fees.

5. Total Bribes Paid by Dixon

Evidence shows that Dixon gave the following things of value to Detroit and Pontiac pension trustees and staff in order to buy influence in connection with the Onyx, Inland REIT, and PR Investment deals:

$20,000	cash to George Stanton, Chief of Staff to PFRS Trustee Tinsley-Talabi (Fall 2007)
$12,000	cash to GRS Trustee Ronald Gracia (2007)
$12,000	cash to PFRS Trustee James Moore (2007)
$1,000	check to Trustee Paul Stewart "campaign" (September 2006)
$1,000	check to Mack Alive, non-profit of PFRS Trustee Tinsley-Talabi
$50,000	payment to Steve Pankake by way of Jim Papas after being pressured to pay by Trustee Jeffrey Beasley (September 17, 2007)
$13,000	for Trustee Beasley and family trip to Turks and Caicos (August 2007)
$1,500	cash to PFRS Trustee Paul Stewart in Christmas basket (December 2007)
$1,500	cash to PFRS Trustee Martin Bandemer in Christmas basket (December 2007)
$750	cash to Stewart at Sinbad's Restaurant (2007)
$750	cash to Bandemer at Sinbad's Restaurant (2007)
$3,000	Trip to Naples, Florida for Stewart and his girlfriend (December 2008)
$20,000	payment to Kilpatrick Civic Fund by Dixon (August 2007)
$10,000	payment to Kilpatrick Civic Fund by Farr (August 2007)
$10,000	payment to Kilpatrick Civic Fund by Dixon (June 2008)
$5,000	payment to Kilpatrick Civic Fund by Farr (June 2008)
$5,000	cash in total to Ronald Zajac to pass on to Trustees during pension trips

$10,000	car to Pontiac Trustee from Second Chance Motors/Farr at direction of Dixon
$60,000	job for Hosea Moore, brother of PFRS Trustee Moore provided by Second Chance Motors at the direction of Dixon
$3,000	car to Son of Pontiac Trustee from Second Chance Motors/Farr at the direction of Dixon
$5,000	car to Pontiac Trustee from Second Chance Motors/Farr at direction of Dixon

Total bribes paid by Dixon: $244,500

6. Benefits received by Dixon and Co-conspirator from the Onyx & the Inland REIT Investments:

As a result of Dixon's bribery activity, Dixon and his co-conspirator Michael Farr received the following benefits

$1,291,000	management fees from the three pension funds paid to Dixon on the Onyx Fund investment (2007-2009)
$300,000	fees to Dixon on the Inland REIT
$3,100,000	in pension money embezzled by Dixon from the Onyx Fund
$2,326,000	in pension money embezzled by Michael Farr

Total benefit to Dixon and Farr: $7,017,000

B. The Seriousness of Dixon's Crimes, Just Punishment, and Respect for the Law (18 U.S.C. § 3553(a)(2)(A))

Dixon's crimes were particularly serious because not only did Dixon bribe public pension officials in order to get access to pension money, Dixon then proceeded to embezzle millions of dollars in pension money once he gained access. As the head of Onyx Capital Advisors, Dixon was a fiduciary in his handling of the public pension money entrusted to him by the three pension funds. Dixon betrayed that trust by stealing millions from the pensioners. Dixon's crimes were especially egregious because he used the public pension money to help pay for the construction of a 12,000 square foot mansion for himself and his family. Dixon also used public pension money that he had embezzled on the Onyx Fund deal to help pay the bribes that Dixon paid to pension trustees in order to gain approval of the Turks and Caicos real estate proposal. Dixon's crimes compounded themselves. His sentence should reflect the blatant and greedy nature of his criminal conduct.

C. Deterring the Criminal Conduct of Others
(18 U.S.C. § 3553(a)(2)(B))

The Court's sentence should send a message to other investment sponsors and third party marketers that they will be held responsible for their bribery and embezzlement. Too often, the government is not in a position to prosecute the bribe payers in corruption investigations. This was not the case, however, with Dixon. The Court's sentence for Dixon should serve as a warning to other bribe payers that they, and not just the public officials who accepted their bribes, will pay a price for their criminal conduct.

D. Protecting the Public from Further Crimes by Dixon (18 U.S.C. § 3553(a)(2)(C))

Dixon has accepted responsibility and shown remorse for his criminal conduct. During the course of his testimony at trial, Dixon openly described his crimes. Given Dixon's criminal conviction and the findings in the SEC lawsuit, it is unlikely that he will be put in a position of trust to commit additional crimes in the future. However, Dixon is a talented and charismatic figure who will likely pursue business deals following his incarceration. The sentence of the Court in this case should send a message to Dixon that his future employment and business activities need to be done in a strictly ethical manner.

III. CONCLUSION

Dixon committed serious criminal conduct over the course of more than four years. This conduct ranged from the blatant payment of cash bribes, to the embezzlement of public pension money for his own personal enrichment and the construction of a mansion. His crimes resulted in significant losses to three vulnerable, public pension systems. During the course of the investigation by the SEC and FBI of Dixon, Dixon lied and misled investigators in an effort to cover up some of his conduct. Balanced against Dixon's crimes and misconduct is his acceptance of responsibility and his substantial assistance to the government through his cooperation and truthful trial testimony.

As part of the Rule 11 Agreement with Dixon, the government agreed to cap the sentencing guideline range for Dixon at 97 months based on the losses to the three pension systems. The government has requested a reduction from that range based on Dixon's cooperation. The government is confident that the Court will impose an appropriate sentence.

Respectfully submitted,

BARBARA L. MCQUADE
United States Attorney

s/DAVID A. GARDEY
s/STEPHANIE DAWKINS DAVIS
Assistant U.S. Attorney
211 West Fort Street, Ste. 2001
Detroit, Michigan 48226-3211
313-226-9591

DATED: September 23, 2015

CERTIFICATE OF SERVICE

I hereby certify that on September 23, 2015, I electronically filed the foregoing document with the Clerk of the Court using the ECF system which will send notification of such filing to the following:

Edward Wishnow, Esq.

DAVID A. GARDEY
Assistant United States Attorney
211 W. Fort Street, Suite 2001
Detroit, MI 48226
Phone: (313) 226-9591
E-Mail: David.Gardey@usdoj.gov
Bar No. P48990